

Cedar Rapids Presentation Materials

Property Tax Study Committee

November 14, 2008

Cedar Rapids adopted the Council-Manager form of government effective January 2006. Cedar Rapids recognizes the importance of strengthening our role as an economic development center for the State of Iowa. The Cedar Rapids/Iowa City corridor and Des Moines area are the primary sources of job and population growth within the State. A primary purpose to the change in government is to restructure systems and services to support this role.

As the City prepared plans to assure continued economic growth and long term sustainability, the city compiled information for a ten-year strategic financial plan which forecasts both operating and capital costs. While the update to this plan was not complete in June 2008, revenue plans forecasted serious financial problems to come.

On June 13, 2008, the State of Iowa experienced catastrophic floods. It is conservatively estimated that Cedar Rapids and surrounding communities suffered more than 50% of the State's total damage. Some summary impact figures of note are as follows:

Flood Magnitude

- 31.12 feet - Crest (11.12 feet over previous record of 20 feet)
- 10 square miles (14%) of the City impacted by flood
- More than 80,000 tons of debris collected and removed to landfills
- Amazingly - 0 flood related deaths

People

- 18,623 estimated persons in flood impacted area
- 120 families in flood areas receiving Section 8 housing assistance
- 1,360 estimated job loss as a result of the flood.
- 1,800 school kids were displaced
- 45 registered daycare providers damaged, displacing 1,547 children

Property

- 7,198 affected parcels (5,390 residential)
- \$2.4 billion estimated cost in damage to public infrastructure and future flood management options
- As many as 1,500 properties will be demolished – 71 prior to Jan. 1, 2009.
- Preliminary estimate: CR residential valuation tax loss is \$81.7 MM

Services:

- City Hall, County Jail, Municipal Court Facilities, Central Fire, Central Library, and the Police HQ completely flooded and displaced
- Cedar Rapids Community School District central offices flooded/displaced
- 45 registered day care providers damaged displacing as many as 1,547 children
- 8 iconic cultural assets displaced/destroyed (museums, theatres, cultural centers)
- Ground Transportation, municipal city transportation hub, completely displaced.

- 3 of 4 city collector wells and 46 vertical wells disabled.
- More than 57,218 flood recovery related volunteer hours donated
- 486 property tax exempt facilities (govt., schools, churches, Red Cross etc...)
- 138 other (utilities & Railroads etc...)

Needs:

- Housing rehab and mortgage assistance gap (\$105.2 MM estimated funding gap)
- 888 new housing units (\$36.9MM estimated funding gap)
- 2,098 rehabbed rental units needed (\$73.4 MM estimated funding gap)
- 1,001 citizens expressed interest in buy-out options (\$72 MM est. funding gap)
- More than 700 small business requiring recovery assistance (\$156.5 MM)
- Flood Mitigation/remedy funding gap \$478.5 MM
- \$5 MM for required US Army Corps of Engineer expanded levee study
- \$54 MM for Steam Heat rehabilitation/rebuild
- \$120 MM for waste-to-energy, co-generation and long-term sustainability initiatives

Cedar Rapids will not be able to rebuild and reinvest itself out of our financial problems

- Cedar Rapids has the opportunity to rebuild and reinvest in the community as a result of the 2008 floods. To do so, it makes sense to follow best practices demonstrated in other states that support more efficient use of capital and operating resources. However, as Cedar Rapids recovers and grows, our financial condition will actually worsen our financial condition since new development does not cover cost of services or infrastructure.
- State law inhibits the use of “best practices” used in other states to address this challenge including collection of impact fees to reflect development costs.

The current system for funding city services needs repair

- The City has experienced a sharp increase in challenges to the tax values of commercial property. It appears that large portions of commercial tax base are now valued significantly below market value. In 2006 the City’s taxable value was reduced by \$13.5 million due to tax value challenges, which resulted in a tax revenue loss of approximately \$200,000. Pending appeals put taxable value of approximately \$30 million at risk. This was before the flood!
- In the last seven years the City has lost about \$1.6 million in tax revenues as a result of these appeals. Current appeals could result in an additional \$418,000 revenue loss.
- The City’s General Fund is supported primarily by property taxes (72%). Flood affected property is estimated to be 17% of taxable properties. The property tax value loss is estimated to be \$81.7 million. The reliance on property tax revenue for operating budgets combined with the loss of property tax value as a result of the flood places the city in an untenable situation.
- Based on data from other states, heavy reliance on property tax to fund city budgets is inconsistent with best practices which encourage greater revenue diversification. Other states provide larger cities similar in size to Cedar Rapids with the ability to collect a wider variety of revenues including sales tax, utility tax, new development impact fees and income taxes.
- The State has steadily reduced its support of cities by cutting back state revenue payments to cities, eliminating taxability of machinery within the property tax system and rolling back of residential property values used for tax purposes. This last change has also disproportionately increased the local property tax burden on commercial properties. Presently, taxable property values represent less than 60% of estimated market value compared to 85% in 1986. This does not include over \$540 million in tax-exempt property.

City revenues do not cover the cost of services for residential properties forcing high subsidies by commercial/industrial properties

- The average residential property tax collected for city operations is about \$1,000. This compares with an estimated cost of services of \$2,000+.
- The state program to rollback residential property taxes currently means that residential property is paying taxes on 45% of market value.

Funding for larger Iowa cities is not competitive with other cities in our region.

- Compared to other comparable Midwest cities, Cedar Rapids ranks last in revenue per capita, producing \$39 million less annually based on average per capita comparisons.
- In order to compete nationally and internationally for commercial and industrial development, Cedar Rapids must offer tax incentives in the form of tax increment financing. Clearly the benefits of this development in terms of jobs and spending for the State and local economy are important. However, the delay in receipt of property taxes related to TIF, coupled with appeals to tax value brings into question whether taxes derived from commercial development always cover the cost to the City for the investments required to support this development.
- Current city debt limits are likely to curtail the ability of Cedar Rapids to re-invest in infrastructure.
- Federal and State funding for transportation projects has steadily declined over the last decade. The current State formula does not reflect the cost to maintain roads in regional centers like Cedar Rapids.

Indicators conclude the City cannot afford to support its recovery and rebuilding efforts within the existing State policies regarding funding for economic development. Cities that serve as economic centers need the State's help with increased operating and capital revenue and tools to encourage more efficient growth management.

City & State	Population		2006 General Fund Budgets		
	(2000 census)	Property Tax	Property Taxes Per Capita	Total Revenues Per City	Revenue Per Capita
Green Bay, Wisconsin	102,313	30,185,540	295.03	73,380,620	717.22
Kenosha, Wisconsin	90,352	28,412,059	314.46	37,160,194	411.28
Madison, Wisconsin	208,054	143,174,913	688.16	208,271,770	1,001.05
Racine, Wisconsin	81,855	29,180,227	356.49	77,068,360	941.52
Rockford, Illinois	150,115	30,000,000	199.85	77,774,679	518.10
Aurora, Illinois	142,990	60,262,000	421.44	142,936,885	999.63
Naperville, Illinois	128,358	13,286,289	103.51	92,611,268	721.51
Springfield, Illinois	111,454	14,613,221	131.11	93,306,262	837.17
Kansas City, Kansas	146,866	86,254,357	587.30	102,179,113	695.73
Olathe, Kansas	92,962	13,712,553	147.51	68,252,315	734.20
Overland Park, Kansas	149,080	8,111,600	54.41	92,693,649	621.77
Topeka, Kansas	122,377	11,131,673	90.96	65,302,813	533.62
Duluth, Minnesota	86,918	16,321,413	187.78	112,224,774	1,291.16
Minneapolis, Minnesota	382,618	123,909,458	323.85	327,934,008	857.08
Rochester, Minnesota	85,806	18,003,706	209.82	45,128,624	525.94
St. Paul, Minnesota	287,151	42,086,653	146.57	137,431,287	478.60
Columbia, Missouri	84,531	5,254,175	62.16	52,854,120	625.26
Independence, Missouri	113,288	6,739,205	59.49	62,102,843	548.19
Springfield, Missouri	151,580		0.00	125,563,234	828.36
St. Louis, Missouri	348,189	46,550,000	133.69	366,381,500	1,052.25
Lincoln, Nebraska	225,581	39,127,580	173.45	123,744,599	548.56
Omaha, Nebraska	390,007	54,058,697	138.61	259,708,380	665.91
Rapid City, South Dakota	59,607	11,155,680	187.15	42,101,014	706.31
Sioux Falls, South Dakota	123,975		0.00	102,314,133	825.28
Davenport, Iowa	98,359	28,638,926	291.17	38,857,348	395.06
Des Moines, Iowa	198,682	43,765,319	220.28	104,889,220	527.93
Cedar Rapids, Iowa	123,119	39,001,792	316.78	47,795,212	388.20

Average Revenue Per Capita	216.33	703.59
Cedar Rapids' Revenues are only 44.83% of the average revenues of all the cities examined		

Revenue Source	National Average 1991-92	National Average 199-97	National Average 2001-02	Cedar Rapids FY 2008*
Property taxes	25.1%	22.7%	22.8%	73.1%
All other taxes	22.3%	23.9%	24.2%	11.8%
Service charges	18.7%	20.9%	20.4%	11.6%
Utility charges	22.1%	21.4%	21.5%	1.5%
Other non taxes	11.9%	11.1%	11.1%	2.0%
Total	100.1%	100.0%	100.0%	100.0%

Cedar Rapids knows the Governor is faced with many urgent needs for communities across the state as we all work to recover from the flood and rebuild. The fact that the Governor is reluctant to access “rainy day funds” for flood recovery efforts is further impetus to explore alternative sources of revenue. Allowing Cedar Rapids tax diversity options will enable the City to help itself and minimize the Cities growing reliance on state funding to rebuild eastern Iowa’s economic/commercial hub.

The City of Cedar Rapids also recognizes the need for a mutually beneficial solution for the State of Iowa, the City and its citizens. We propose the ability to collect alternative sources of revenue, but we also understand that compromise is necessary in order to achieve an acceptable solution. Thus, we suggest that the legislation initially apply only to cities having population in excess of 50,000, with at least 25% of their tax base comprised of commercial/industrial. A commercial/industrial property tax break, implemented as a tax rebate, is an integral part of this plan that would stimulate the local economy and increase tax revenues at the State level.

In addition, we would implement sustainable/’smart’ growth initiatives to stem the urbanization of agricultural lands and continue to control local government costs by utilizing continual process improvement and forming partnerships with other governmental entities.

A shift from being a predominately property tax revenue supported government, to a more diversified revenue government is essential for our long-term health. The following diversified revenue sources serve as just a few examples of diversified tax options that large cities could use (as needed) to help offset current and future financial shortfalls.

- Franchise Fees – allow for franchise fees to be assessed on all utilities located within the city.
- Local Option Income tax – allow for a one cent sales tax (LOST) without a referendum.
- Local food and liquor sales tax – tax of 1% on all food and liquor sales in the city.
- Hotel and Motel Tax
- Impact fees – charge developers and builders a justifiable fee for the impact to the city for infrastructure - related costs attributable to development in order to recover revenues that lag from time of construction to the receipt of property taxes.

Economic incentives to help with flood recovery (as examples)

- Flood Impact Enterprise Zone(s)
- Scattered Site TIF
- Expanded Bonding Capacity beyond 5%
- SRF refunding of existing geo revenue debt

Future Statutory Considerations (as examples)

- State Low Income Housing Tax Credits
- No referendum requirements for co-location
- Double tax exempt bonds with flexible payment structures (384.10)

Through revenue diversification we can become more successful as an economic center and help ensure the vitality of Iowa for its citizens.